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ROMANIA: Party leader Ceausescu has strongly reasserted his country's independent foreign policy, in terms which suggest renewed inter-party squabbling with the Soviets.

At the Romanian party's 50th anniversary celebrations last week, Ceausescu elaborated on the blunt, nationalistic statement he made at the Soviet party congress last month. He flatly rejected the idea that the Communist world movement should be directed from Moscow, and insisted that there is no contradiction between Romania's pursuit of national interests and the preservation of international socialist unity. Ceausescu also implicitly reaffirmed his criticism of the Soviet intervention in Czechoslovakia in 1968.

Ceausescu specifically disputed recent Western press allegations that Romania is backing away from its nationalistic stance. To quell doubts on this score, Ceausescu asserted that the principles of independence are as essential to Romania as air is to life.

In statements which are sure to irritate Moscow, Ceausescu reasserted contentious issues that have been dormant in past months, and frequently praised the Chinese Communists. He consistently downgraded the USSR's contribution to the building of socialism in Romania, which has been the theme of Moscow's sparse commentary on the anniversary. His reference to the necessity for strengthening party unity suggests that he still fears that the Soviets might try to cultivate ultraconservative elements of the Romanian party.

Although Ceausescu is known to prefer regular consultations to iron out problems with the Soviet leaders, the two sides have not met in recent months. Brezhnev apparently did not hold private discussions with Ceausescu during the Soviet party congress, nor did the two meet when Brezhnev made a brief, late-night stopover in Bucharest en route to Sofia to attend the Bulgarian party congress in mid-April.



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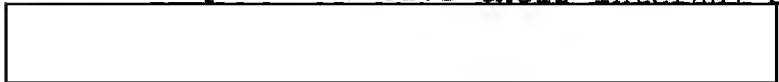
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YUGOSLAVIA: The Croatian Republic party is threatening a purge of "opposition elements."

On Monday the Croatian party's commission on ideology and organization sharply attacked separatists who want to break up the Yugoslav federation, and also recommended a purge of dissidents from the party. The commission also reported that 20,000 party members, mostly workers, had left the party in the last two years because of ideological confusion and proliferating factionalism. Certain party members were also condemned for pushing a closer relationship between the party and the Catholic church. The commission made it plain that, although religion and the party could coexist in Yugoslavia, simultaneous party membership and church allegiance are untenable.

The Croatian central committee is to convene on Thursday and the commission's recommendations will be taken up then. The Croatian plenary session was called following consultations two weeks ago between local party leaders and President Tito.

Over the past weekend, President Tito repeated his call for purification of the party and firmly rejected allegations that he was bluffing to bring the opposition into line. This demonstration of resolution probably was calculated to convince the Croats that they have to take immediate and concrete steps to resolve their internal problems.



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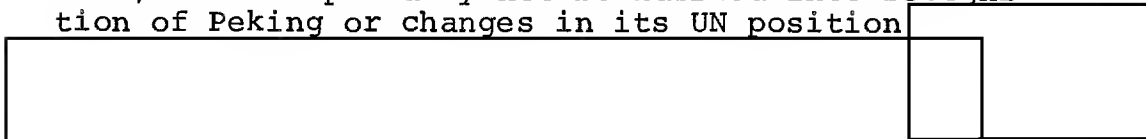
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AUSTRALIA - COMMUNIST CHINA: The political opposition's initiative on relations with China has forced the Australian Government into a more accommodating public position.

Prime Minister McMahon reacted within hours to dilute the effect of Labor Party parliamentary leader Whitlam's announcement yesterday that Chinese permission had been received for a Labor delegation to visit Peking in June. McMahon stated that--in view of Peking's apparent receptivity to wider contacts--government efforts will be undertaken to open a "dialogue" which could lead to attainment of a long-term objective of normalizing relations with the mainland. McMahon asserted that Peking's record of subversion dictated caution and emphasized that no steps would be taken that would prejudice Australia's relations with the Republic of China.

Whitlam's planned Peking venture is an attempt to capitalize on domestic disappointment over Peking's rejection of wheat purchases from Australia this year. In an effort to create pressure for recognition in Australia, the Chinese told Australian Wheat Board members last month that henceforth purchases would be made only from "friendly" states. Loss of the Chinese market, which accounted for about 30 percent of Australian wheat exports last year, prompted a worried reaction from Australian farmers, whose support is important to the Liberal-Country coalition government.

It has been the Labor Party's policy to recognize Communist China. Although the government probably wishes to undercut the Labor Party's initiative, it will probably not be hurried into recognition of Peking or changes in its UN position



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PANAMA: The government, while taking steps to protect itself against coup plotting, is seeking to embarrass the US by granting political asylum to US servicemen.



Torrijos has blamed the US for previous coup attempts and has resented his opponents' use of the Zone as a safe haven. In an obvious slap at the US for granting asylum to plotters on previous occasions, and possibly to forestall such action in the future, the government has granted asylum to two soldiers who escaped from a US military stockade in the Zone and to an airman under investigation for larceny. In addition, the Panamanians have arrested two US soldiers accused of attempting to kidnap the asylees.

The current Panamanian moves appear, however, to be part of a larger plan to present a more leftist, nationalistic image. Under tight budgetary constraints and apparently convinced that a new canal treaty with the attendant economic advantages would not be possible this year, the government seems to hope that an upsurge in revolutionary rhetoric and political mobilization will distract attention from any downturn in economic activity and employment. Torrijos, with the assistance of the Communist Party, may seek therefore to focus popular attention outward, channeling discontent against the US and in support of government efforts to gain full jurisdiction over the Canal Zone.



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INTERNATIONAL MONETARY SITUATION: Measures instituted by several European governments over the weekend appear to have provided a breathing space for more considered action.

Foreign exchange markets have been relatively quiet. The Deutschemark and the Dutch guilder stabilized around two or three percent above the old dollar parities. In London, demand for dollars increased as speculators, apparently unwilling as yet to unload marks and guilders, sold pounds to buy dollars needed to cover transactions made last week and due this week. In addition, there probably was some movement from sterling directly into marks and into Eurodollars, which pay a higher interest rate. Consequently, sterling yesterday hit its lowest point in weeks.

Although it seems likely that both Bonn and The Hague will permit their currencies to float for some time, they will probably come under increasing pressure to adopt fixed rates again as the situation stabilizes. In moves which could serve to shorten the period of floating, Bonn has banned interest payments on foreign deposits and will require commercial banks to obtain licenses for any such deposits above 50,000 marks. These steps are intended to shield Germany from massive capital inflows at such time as the float ends.

Some of the early political fallout from the crisis is now evident. With varying degrees of feeling, most Europeans hold the US basically responsible for the crisis. At a meeting with Ambassador Schaetzel on Monday, EC Commissioner Barre in effect predicted dire consequences for US-European relations should there be any intimation from Washington that the US is benefiting from the difficulties the crisis has caused the Common Market.

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Within the community, it is now widely assumed that Paris is concerned about the pre-eminence which the mark has achieved. [REDACTED]

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[REDACTED] Pompidou personally decided on France's abstention from further work on EC monetary union, while the floats are in effect, in order to show French displeasure over the German action. [REDACTED]

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[REDACTED] Paris will as a result be more eager to facilitate British accession. At the same time, however, the French may also strengthen their insistence that steps be taken to assure that sterling not achieve the role of the community's reserve currency. Sterling's future is likely to be one of the main themes of Pompidou's meeting with Heath later this month. [REDACTED]

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UN: The lengthy impasse over the development of new guidelines for UN peacekeeping missions shows no sign of being quickly resolved.

At the meeting last week of the committee set up to consider this problem, Ambassador Malik provoked a bitter debate, alleging that the US is solely responsible for preventing agreement. In response to US questions, Malik gave no indication when--if ever--Moscow intends to respond to the US proposals which were submitted for its consideration months ago.

Principally at issue is the Soviet reluctance to accord any degree of latitude to a secretary general in controlling a peacekeeping mission. Although Moscow has given no sign of any give on this question, it may also be delaying any response because it is reluctant to take a position on the general question of peacekeeping arrangements while discussion of the four-power guarantees for any Middle East solution is still going on.

Although the smaller powers have heretofore waited patiently for the big powers to try to resolve their differences, their comments at last week's meeting suggest that they may intend in the future to intervene more actively. The Brazilian delegate advocated greater "collective responsibility" by the smaller powers in the absence of a superpower accord, and his Yugoslav counterpart termed leaving the matter to the US and the USSR "impermissible." Most members feel much greater efforts should be made to achieve agreements on at least interim steps. A Canadian official has told the US that Ottawa may offer a compromise proposal on peacekeeping operational responsibility, and that a further delay in progress could lead to Canada's withdrawal from the committee.



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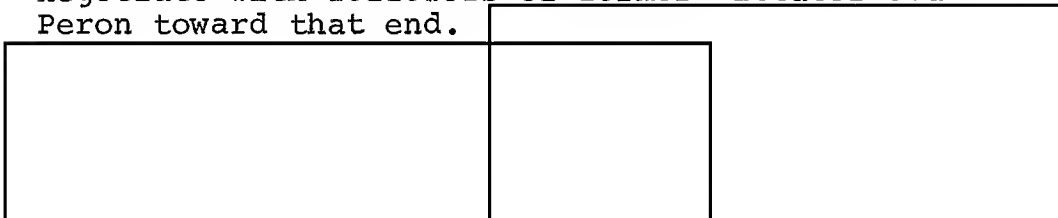
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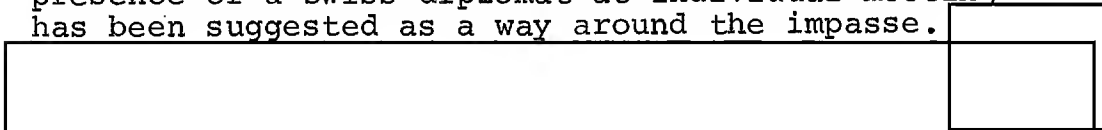
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ARGENTINA: Government forces moved last night to thwart a plot by extreme nationalist military officers aimed at ousting President Lanusse. According to press reports an arrest order was issued for retired General Labanca, and several colonels believed to be involved were arrested. The conspirators were primarily opposed to President Lanusse's plan to hold elections within three years and to negotiate with followers of former dictator Juan Peron toward that end.



* * * *

PAKISTAN-INDIA: Both countries have accepted Swiss good offices in their dispute over the repatriation of diplomatic personnel in Dacca and Calcutta. Pakistan has refused to allow the repatriation of the Indians unless Deputy High Commissioner Masud--a West Pakistani--is allowed to interview individually each East Bengali defector from the mission in Calcutta. The Bengalis, however, insist that they will come only as a group to see Masud. The presence of a Swiss diplomat at individual meetings has been suggested as a way around the impasse.



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CHILE: Government pressure continues to mount against opposition news media, particularly radio and television. The ruling Popular Unity coalition is demanding the cancellation of a popular television discussion show dominated by Christian Democratic and National Party spokesmen. In addition, the status of a large Christian Democratic radio network remains in doubt following a government decision to transfer the broadcasting concession to the country's only labor confederation, which is dominated by the Communists and Socialists. Communist columnist Eduardo Labarca, coordinator of the newly created Leftist Journalists' Organization, has revealed that a congress of Latin American journalists will be held in Santiago in September.

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